Address Before

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With almost unmixed satisfaction the members of the American Bankers' Association may contemplate the progress of financial events during the year which has elapsed since their last meeting. Little short of bewildering is the array of statistics which could be presented to demonstrate the rapid growth, sound development and satisfactory progress made in the commercial, financial and industrial fields. It is safe to assert that never before was our population so fully employed. Never before was the general level of wages so high, never before has the aggregate volume of industry been as great as it is to-day, never was the future of industrial activity so fully assured by advance orders. Never was the measure of commercial activity so large, and never before did such bountiful harvests meet such eager markets.

Enormous Agricultural Wealth.

The total value of the agricultural crop of the United States will this year exceed by $500,000,000 the average value of that crop during the last ten years. The money value on the farms of this season's crop will reach the staggering total of $3,000,000,000. You of the West and South are close to the true meaning of these figures. To eastern bankers such statistics are merely figures. Their aggregate is so vast that it is difficult to comprehend their true import. You who are closer to the fields, the granaries and the cotton presses, you who with your own eyes see the direct results of this flood of wealth, are more competent to comprehend its significance.

Under the influence of harvests less bountiful than this, following one another with providential regularity, in the last half dozen years, you have seen whole communities change in character. People whose only acquaintance with finance was their knowledge of mortgage payments made to absent creditors, have been converted into commonwealths with surplus capital and investment capacity.

The whole great Mississippi Valley gives promise that at some day, distant perhaps, it will be another New England for investments. There is a developing bond market there which is of constant astonishment to eastern dealers. You have seen the farmer in these half dozen years discover the uses of a bank account, deposit his income, pay off his mortgage, accumulate a surplus and actually become an investor in corporate securities. You have seen that sort of thing multiplied and repeated until the aggregate wealth of the western and southern States has become astounding, even to you who have taken an active part in its growth.

Now on top of these succeeding years of good harvests, good prices, intelligent liquidation of debts and thrifty accumulation of surplus, comes the unprecedented figures of the value of this season's crop yield. Surely America is a country blessed.

Industrial Prosperity General.

The feature of agricultural life in these recent years has been great income, diminishing liabilities and the provision of ample working capital, with all the economies and advantages which ample working capital provides. These conditions have worked marvels in the way of prosperity for the agricultural communities. But prosperity is not confined to the farms. These same influences, large income, diminishing liabilities and the provision of ample working capital, have been factors in the industrial field as well; we can find a great prosperity under shop roofs as in the fields. The days when industrial competition commonly reached a point of destructive severity are largely past. The days when narrowness of outlook and lack of co-ordination led to the wasteful duplication of plants and a vast unproductive expenditure of capital, have given way to more intelligent management. That destructive competition, that duplication of unproductive expenditure, led with unerring economic force to the industrial combinations which marked the last years of the century recently closed. The forces which led to these combinations were so irresistible that some industries were swept together under hastily considered plans.

With Mr. Vanderlip's Compliments

Combinations were made that were properly open to criticism. Heterogeneous elements were united in ways that meant inevitable friction. Diverse interests were brought together but could not in a day be harmonized. For a time there was doubt as to whether or not true wisdom had been shown by the men who formed these great industrial combinations.

Advantages of Industrial Combinations.

Evidence has now accumulated, I believe, to warrant an answer to that question. We anticipated economies when these combinations were made, but we are only just beginning to understand something of the full advantage which may result from the national organization of certain industries. It took a little time to get these organizations running smoothly. It was not easy to find men with the broad economic insight which the management of such great enterprises required. When a nation meets a crisis men seem to be raised up ready for the tasks. When this country faced war we produced great military generals. To-day, when the crisis in the management of vast industrial combinations is upon us, we are producing great captains of industry. These managers are not all great administrators any more than the war officers were all great administrators, but I believe the world has never seen the parallel of the business genius which is coming into the work of organizing some of these great industrial combinations. Economies are being brought about that were not conceived of when these organizations were formed. The co-ordination of a whole field of industry, the organization and distribution of plants so that the industry is working under the least possible disadvantage in respect to transportation charges, the combination into such aggregates that expenditures may be made to effect small savings, or in introducing mechanical aids which would be impossible in small plants, but which on a large scale effect remarkable economies—all these developments are answering the question as to the wisdom of these combinations. The results are beginning to appear in the income accounts and balance sheets. The improvement there foreshadowed is, I believe, but an indication of what may yet come.

With the aid of a wealth of raw material and a genius for mechanical manipulation, we developed a few years ago a capacity for industrial competition which startled the world. England, whose supremacy had been of such long standing that she rested in serene assurance, was crowded out of some of the international competitive markets. She was crowded to second place by America and then to third place by Germany. Our exports of manufactures doubled and doubled again and we had to be reckoned with in every international market.

The Awakening of Europe.

Then came a halt. Europe awoke to the situation. She bought samples of our tools and duplicated them. She sent an army of investigators to study our methods. She arrested us in our commercial conquest. That halt is proving to have been only temporary. Again we are showing unexampled totals in our exports of manufactures. The present figures are substantially exceeding the totals which we made at the time Europe coined the phrase, "a commercial invasion." The reason for this late improvement, this regaining of ground temporarily lost, this making of new records, lies in the perfection of industrial organization which has been made possible by the great combinations. I believe we are just started on a new "commercial invasion." We have the cheapest raw material, the most efficient labor, a pre-eminent ability in the adoption of mechanical aids, and all that is combined with what I believe to be transcendent genius for economic organization. The combination of these forces will, I conceive, be well nigh irresistible. The logic of this combination spells for us an unexampled development of foreign trade. All we need is intelligently to foster the possibilities. I am not giving rein to imagination. The cold figures of Government statistics show the beginning of this new industrial conquest. Comparisons of manufacturers' cost sheets reveal the possibilities of future successes. Our own homogeneous domestic market, as great as that of half of Europe, contrasts strikingly with the tariff-hampered field of European manufacturers. Our foreign competitors meet at every turn the obstacles of cus-

toms restrictions, of racial differences and national jealousies. This great homogeneous market of ours makes a solid foundation upon which our industries can stand while they reach out successfully into competitive fields.

Development of Foreign Trade.

The conquest of foreign markets will not be an easy one, however. We are likely to meet with defeat and failure at some points caused by our failure to give proper attention to the business—and there are many examples of that in the past—or caused by a combination of obstacles which we cannot overcome. Perhaps we may see an example of the latter situation in the Far East. It is by no means certain that Japan is to stand courteously at the open door of Oriental trade and permit us to enter. We have seen in China what a racial boycott can do in interfering with trade totals. Oriental trade is not something won, but something to be striven for and there will be difficulty, defeat, disappointment and discouragement. Nor is the trade of Europe to be ours for the asking. The obstacles of tariff walls grow higher with every meeting of Continental Parliaments. The ability to compete with us increases as our methods are better comprehended. Germany has gone so far ahead of us in the proper education of the industrial classes that we may lose at times from that cause alone.

The World's Production of Gold.

I do not mean that advantage is to come to us through disaster to others. We have perhaps more than our just measure of prosperity, but there seems, at the moment, to be good measure throughout the world. The world has withstood the financial strain of a war which cost the combatant nations two billion dollars. It has withstood that strain so easily that one is led to inquire how it has been possible that such a disaster should have produced no more unfortunate results. I believe the answer to that should be looked for in a quarter to which our academic friends have been giving some attention, but which has not as yet come to

excite very great interest among practical financiers. It is not alone to the raisers of grain that nature has been bountiful of late. The mines of the world have been yielding treasure as lavishly as have our fields. In every day of this year, nineteen hundred and five, work days and feast days, holidays and Sundays, there will be drawn from the ground a million dollars of new gold. And then when the total is finally cast up there will be a number of odd millions to spare above that average. The mines of the world will produce this year $375,000,000 of gold. The final figures for the production of gold in 1904 have recently been made and they footed $347,000,000. We may reasonably look forward in the near future to an annual average output of $400,000,000 of new gold for at least a considerable number of years. When we remember that in 1885 the production of gold was but $115,000,000, we begin to get a comprehensive view of the significance of this increase. When we remember further that the entire monetary stock of gold in the world is about $5,700,000,000 we can calculate that the output from the mines in the next fourteen years promises to equal a total as great as the present monetary stock of gold. These figures are startling. They perhaps suggest the possibility of a disturbance of values. It does not follow, of course, that with the production of $400,000,000 of gold per annum the monetary stocks will be increased by that amount. The uses of gold in the domestic arts draw off at least $75,000,000 a year, but that will leave over $300,000,000 a year to add to the gold reserves. So eminent an economist as Le Roy Beaulieu has estimated that the monetary stocks of the world will be doubled in twenty-five years. In the light of recent statistics of the output of production I have no doubt that he would modify that estimate and incline to the view that the monetary stocks will be doubled in twenty years.

Effect of Increased Gold Production.

What is this to mean to the business situation? What is to be its influence upon prices? What effect will it have upon money rates? These are no longer academic questions.

They are practical considerations which need to be taken into account by business men. The great increase in gold production which has been in progress since the close of the Boer War has, in my opinion, been a factor in the rapid recovery from the depression of three years ago. At that time, through financial excesses and indiscretions, we had been led into a dangerous position. In Europe also the chilling effect of the great destruction of capital occasioned by that war, was everywhere manifest. This new gold production pouring itself into the bank reserves of the world has been an influence in bringing about the quick recovery from depression and in withstanding the shock of the further destruction of capital which the Russo-Japanese War entailed.

The classical economists, Ricardo, Adam Smith and Mill, evolved the quantity theory of money. They held that the prices of things would vary with the quantity of money in existence. If the money stock were doubled, prices would be doubled; if the money stock were halved, prices would be cut in two. That theory has been proved to be inadequate. There are many other interfering circumstances and modifying conditions. Nevertheless there is economic truth and force in it. It is within the intimate knowledge of all of us that if our bank reserves are increased we are moved to increase our loans. A pressure to increase loans tends to reduce interest rates. Lower interest rates enhance the price of incoming paying securities. I think every one will accept, subject to important modifying conditions, the statement that an increase in the monetary supply has a tendency to advance prices. There may be other influences that will counteract in the final result. There can be no doubt, however, that with every million dollars of gold added to the bank reserves of the world, there is a disposition to increase credit lines. That increase in credit lines in turn has its influence on the side of advancing prices. As a practical matter, however, I do not believe we are facing any economic revolution as a result of this influx of gold. We must remember that the growth of business may keep pace or even run ahead of the substantial growth in the gold reserve so that in spite of actual increase the relative percentage

of gold reserves to credit demand would leave prices unchanged.

Increased Gold and the Interest Rate.

The subject is a fascinating one, but at the outset it must be admitted that it is not one for accurate calculation and definite conclusion. There are a few considerations, however, and some popular misapprehensions in regard to it concerning which it would be well to have clear thinking. For example, it is rather commonly said a great increase in the gold supply will bring us to a permanently lower interest basis. That is a misconception. It is true that the first effect of gold additions to a bank reserve will be to lower the interest rate. That effect, however, is temporary. When the money supply has reached a permanent level, no matter how great the increase in it has been, the interest rate, other things remaining unchanged, will find its regular level. Interest is but a payment in kind. If the value of money depreciates, the value of interest payment depreciates as well. We need look for no permanently lower interest basis as a result of an increase in the money stock, but while that increase is in progress, the reserves are being constantly augmented and the tendency would be toward lower rates.

"A Tree Never Quite Grows to Heaven."

There is another consideration which we should have clearly in mind. Disregarding for the moment all other influences, we may lay down the principle that an increase in the supply of money will tend to advance the price of real property, but the price of an obligation repayable in money will not tend to advance. That is to say that real estate and all forms of property, including shares of corporate stock, which represent an ownership in real property, would advance, but bonds, which represent only the right to demand a payment in money, would not advance. All persons having a fixed income would find the purchasing power of that income reduced. The return from mortgages and bonds would have a reduced purchasing power. Persons receiving fixed salaries and wage earn-

ers generally would be at a disadvantage, for their incomes would not tend to increase as rapidly as the purchasing power of their wages decreased. Under such a set of circumstances there would be constant pressure from wage earners in order to increase their incomes so as to keep pace with the advanced cost of living. Is not that exactly what we have been seeing and are we not likely to see more of that same pressure to advance wages as the cost of living advances?

The Outlook for the Future.

These are tendencies which would become sharply manifest if there were not counteracting influences opposing them. That there are sure to be such counteracting influences goes without saying. I recall a conversation which I once had with the great German financier, von Siemens, the creator of the Deutsche Bank. The balances of trade in our favor had been climbing up from $400,000,000 to $500,000,000 and then had gone well beyond $600,000,000, and it looked as if we might drain Europe of her whole monetary stock if that sort of thing was to go on. I asked Herr von Siemens what was to be the outcome for Europe. He replied with a well known German phrase, "A tree never quite grows to heaven." Events soon proved that this tree of favorable trade balances could not quite grow to heaven, although for the moment it did look as though it were likely to. And so with this increased production of gold which gives promise of doubling the monetary stock of the world in the next score of years. We might expect, if the theories of the classical economists held good, that with a doubling of the gold stock would come a doubling of prices. We can, however, be very certain that the theory will not entirely hold good. There will be counteracting influences. While there will undoubtedly be a tendency to advance prices as a result of this influx of gold into the bank reserves of the world, I do not believe the gold production is likely to become a serious menace. I do not believe that it will so disturb those business relations that are based upon the terms of money, as to cause any vital derangement of affairs.

What I do believe is that there is likely to follow just what followed in the two former periods of the world's history when there was an extraordinary production of gold added to the monetary stocks. One of these periods followed the discovery of America, when the treasures of Mexico and Peru were exploited. The other was in the years following the discovery of gold in California and Australia. In each case a mighty impulse was given to the exploitation of virgin fields of development. It seems to me not improbable that the next few years will witness the expansion of the field of commercial enterprise into new places. Countries that are commercially and industrially backward will yield to this new influence. It seems to me that one of the direct and important effects of this great production of gold will be to give an impulse to the development and industrial exploitation of South America, Africa, Asia and eastern Europe. At our own hand is South America on one side and China and Japan on the other. We are rapidly awakening to the commercial possibilities within these countries. If we are to have an influx of gold more than ample to sustain the credit operations for our domestic affairs, that fact will tend to lead our interests into these new fields of exploitation. Then, in turn, a wider use of credit which these new fields will develop and the increased reserves which that wider use of credit will make necessary, will probably absorb the increasing gold stock in beneficient uses, preventing it from ever becoming a serious menace to business organization.

A Time for Prudence and Conservatism.

The outlook is surely bright. What can hurt us? What dangers are ahead? With bountiful harvests, with lavish mineral production, with increasing financial strength, with wonderfully improved industrial organization, with a sound banking position, and with an impulse already given to every form of commercial activity, what is there to fear in the future? Is it clear sailing? Can we make commitments without fear for the future? Is the whole outlook into a cloudless financial horizon? An optimist might be forgiven

for thinking that it ought to be. We have a good many elements of a firm foundation under our feet but again we might quote the German phrase, "A tree never quite grows to heaven." Sure as we are of many of the substantial foundation stones upon which to rear a structure of prosperity, we may be quite as sure that there are dangers lurking in the situation. Some may be avoided, others will not. Some it is possible to foresee, others we will fail to recognize until we see their evil effects. Among those which we know exist, there comes first to mind our illogical and unscientific currency system. We know that this system may at any time breed us trouble. We know that there is not a European financier of broad intelligence who, looking dispassionately from without at this currency system of ours, does not feel that it has in it dynamic possibilities for trouble even if other conditions are favorable. Indeed it is when all other conditions are most favorable that the danger is the greatest. Now, in the very fullness of the prosperity that we have, there might be a pitfall for us in that quarter. A strain is on our currency system. With our usual good luck we may avoid disaster but it is the sort of time, nevertheless, when we ought clearly to see that we have a system which might endanger our banking position and retard most seriously our commercial development. We know that we are threatened by great social disorders; that the edict of a labor leader might change a cloudless outlook into an uncertain one. We know there is a disregard of law in labor unions and in corporation offices alike, which is threatening to our welfare. We can, at the moment, clearly see that however prosperous conditions may appear, this prosperity might receive a severe check should a speculative fever begin to rage. Should a stock market speculation start from the present high level of prices in the face of the extraordinary demand for capital and money which crops and business alike are making, the result might easily be temporary disaster.

I have been emphasizing some of the bright sides of the picture but there are shadows. In a gathering like this Jeremiahed songs are not pleasant but there are some that might

be sung which would not be out of harmony with true conditions. Never was there a better time to preach conservatism; never perhaps was it easier to be carried away by some of the obvious features of prosperity and to forget some of the dangers which in the end will be quite as potent in shaping the ultimate result. "A tree never quite grows to heaven." Although there may be many favorable features to the outlook, it is no time for prudence to be cast to the wind; no time for speculative commitments which would yield disaster if temporary reverses came; no time for laxness in any of the forms of business prudence and conservatism.